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Report of the Secretary-General on the United Nations Interim Administration Mission in Kosovo

I. Introduction

1. The present report is submitted pursuant to Security Council resolution 1244 (1999) of 10 June 1999, by which the Council decided to establish the United Nations Interim Administration Mission in Kosovo (UNMIK), and requested a report at regular intervals on the implementation of its mandate. The current report covers the activities of UNMIK and developments in Kosovo, Federal Republic of Yugoslavia, since the report of 22 April 2002 (S/2002/436). Matters reported to the Security Council at its meetings on 24 April, 16 May and 26 June are referred to as necessary (see S/PV.4518, 4533 and 4559).

II. Building functioning democratic institutions

A. Executive and legislative branches

2. An important development of the reporting period was the final formation of Kosovo's multi-ethnic Government, following the nomination at the end of May of Kosovo Serb representatives for the positions of Minister for Agriculture, Forestry and Rural Development and inter-ministerial Coordinator for Returns in the Office of the Prime Minister. On 12 June, all members of the Government swore an oath of office, pledging their commitment to work for the benefit of all communities. The Assembly adopted the Government programme, which was based on the agreement of 28 February (see S/2002/436) and endorsed the benchmarks my Special Representative outlined to the Security Council in April 2002 (see S/PV.4518). Priorities included consolidating democratic structures, improving education and health care, and promoting economic development. The programme also focused on the protection of the rights and interests of communities, including the right to return, and regional integration.

3. In accordance with the Constitutional Framework on Provisional Self-Government in Kosovo of May 2001 (see UNMIK regulation 2001/9 of 15 May 2001), UNMIK continued to transfer responsibilities laid out in chapter 5 of that document to the executive branch of the provisional institutions of self-government. Progress varied from ministry to ministry, but overall the transfer of responsibilities proceeded fairly smoothly, and there was no major break in the provision of services.

4. Gradual progress was made in pushing the legislative process forward. The Assembly passed its first law, No. 2002/1, on the methodology for the level of basic pensions in Kosovo. Further draft legislation, on education and forestry, was sent to the committee stage. The Assembly Support Initiative, run by the institution-building pillar of UNMIK, which is led by the Organization for Security and Cooperation in Europe (OSCE), intensified its support and technical advice to the committees during the reporting period and trained committee chairpersons in examining and amending draft legislation.

5. Assembly members also gained experience from working visits to other Parliaments. Of particular value was a visit in May to the Northern Ireland Assembly, where the Kosovo delegation was able to see the work of another Assembly built against a background of

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community division. Further experience was gained in June when a multi-ethnic delegation of 30 Assembly members took part in a workshop on developing good governance in the United States of America, followed by a visit to Congress.

6. Both the executive and the legislature have taken steps to protect the rights and interests of communities. The Assembly decided to enlarge the membership of committees to accommodate the need for adequate representation of minority communities in its functional committees, as laid down by the constitutional framework. The Office of the Prime Minister established an Expert Group on Diversity Review with governmental and multi-ethnic participation, mandated with the promotion and monitoring of non-discriminatory government policy.

7. A reasonably good working relationship has been established between Assembly members representing different communities in the Assembly Presidency and in the committees. On a number of occasions, however, proposals made by the Kosovo Serb Assembly members were ignored in the course of Assembly debates and suggested amendments to draft legislation not taken into consideration. On 4 July Kosovo Serb members walked out of the Assembly meeting after the Assembly President failed to include their amendments in the draft resolution on the rights of communities and their members and on the conditions for return of internally displaced persons and refugees. At the same session, the President of the Assembly threatened Kosovo Serb members with sanctions if they continued to refer to Kosovo and Metohija. UNMIK is working with both the President and the individual parties to address these issues.

8. Although the constitutional framework provides a clear distinction between transferred responsibilities (chapter 5) and those reserved for my Special Representative (chapter 8), the exact delineation of those responsibilities was an issue of discussion. My Special Representative intervened on several occasions to clarify the areas for which he has sole responsibility. Since international relations are part of his reserved responsibilities, he declared null and void the resolution adopted by the Assembly on 23 May on the border demarcation agreement between the Federal Republic of Yugoslavia and the former Yugoslav Republic of Macedonia. Similarly, he declared null and void a memorandum of understanding on economic cooperation agreed between the Kosovo Minister of Trade and Industry and his Albanian counterpart, which was negotiated and concluded contrary to the provisions of the constitutional framework. Guidelines have now been issued for agreements of the provisional institutions with Governments and international organizations.

9. Despite the inevitable jostling for more responsibilities, overall the relationship between UNMIK and the provisional institutions in this initial transfer phase has been good. The establishment in May of the Economic and Fiscal Council, as provided for by the constitutional framework, enhanced consultations and policy coordination between UNMIK and the provisional institutions. So far, the Council has discussed the Kosovo Trust Agency, the Kosovo Pension Savings Trust, draft legislation on public financial management and accountability, and the need for coherence and coordination of legislation in the transferred and reserved areas.

B. Civil service

10. Building up a professional civil service remained difficult, due, in large part, to the low salaries that could be offered by the Kosovo consolidated budget. An important step forward was the recent short-listing of candidates for the key posts of permanent secretaries in the ministries and in the Office of the Prime Minister. It is important to secure the early recruitment of permanent secretaries, as this function continued to be carried out by principal international officers.

11. Progress in recruiting minority members of the civil service remained mixed, although increased numbers of recruited minority personnel indicated that Kosovo Serbs have started to join the administration. In particular, the Agriculture Ministry, now headed by a Kosovo Serb, succeeded in recruiting and integrating a number of minority community staff in the Ministry's central office. UNMIK continued efforts to provide favourable conditions for minority recruits, including its public transport service for minority staff members. A further boost to minority recruitment was given by the signing in June by my Special Representative of a memorandum on the establishment of proportional community representation. This initiative entrusted the Ministry of Public Services with the task of ensuring that members of both internally displaced and refugee communities, especially minority communities, were eligible for civil service positions. In addition, it

specified the need to draw up a detailed affirmative action plan to help both the ministries and the municipalities to meet proportional ranges for ethnic and gender representation throughout the civil service.

C. Preparations for municipal elections

12. An important element in the preparation of the municipal elections, scheduled for 26 October 2002, is the increase in responsibilities of the local electoral bodies, particularly the Municipal Election Commissions. A large number of non-governmental organizations and political entities, including Kosovo Serb entities, have applied to observe the electoral process.

13. This year, the institution-building pillar assumed direct management of the by-mail and out-of-Kosovo electoral operations in Serbia proper and Montenegro. The by-mail operation, to over 35 countries, began on 10 June. On 6 July, the institution-building pillar signed a memorandum of understanding with the Commissariat for Refugees in the Republic of Serbia, regarding the 2002 Voter Service Programme for Displaced Residents currently residing in Serbia, excluding Kosovo. A separate memorandum of understanding was signed with the Republic of Montenegro. Both offer people who lived in Kosovo on 1 January 1998 the opportunity to register to vote in the municipality in which they resided at that date.

14. The municipal elections will provide an important opportunity for those communities that boycotted the 2000 municipal elections, particularly the Kosovo Serb community, to take part. The conclusion of the political entity certification period on 1 July provided encouraging signals for increased minority community participation at the municipal level. To harness the interest shown, on 24 June the institution-building pillar began a project to assist minority communities in voicing their concerns about the functioning of local government and municipal services.

15. Several Kosovo Serb representatives made statements conditioning participation in the municipal elections on the establishment of separate Kosovo Serb municipalities, an idea presented to the Security Council in April 2002 (see S/PV.4518) by Nebojsa Covic, Deputy Prime Minister of Serbia and Head of the Federal Republic of Yugoslavia/Serbia Coordinating Centre for Kosovo. My Special Representative made it clear to Mr. Covic and to the authorities of the Federal Republic of Yugoslavia that such "cantonization" or "territorialization" was not a feasible option. Instead, UNMIK began to examine ways of using existing regulations, in particular regulation 2000/45, on the self-government of municipalities in Kosovo, to provide for the further devolution of responsibilities to the community level.

III. Laying the foundations for economic progress

16. High unemployment continued to pose a major challenge to the provisional institutions and the international presence in Kosovo. In the enterprise sector, the number of registered enterprises stabilized, and only the number of small private firms continued to grow. In addition, the revenue of the Kosovo consolidated budget stopped growing. It is too early to draw any definite conclusions, but it seems that the period of rapid fiscal expansion is over and that diminishing donor interest has started to have a negative effect on the consolidated budget.

17. On 13 June, my Special Representative promulgated regulation 2002/12, on the establishment of the Kosovo Trust Agency, and regulation 2002/13, on the establishment of a special chamber of the Supreme Court of Kosovo on matters related to the Kosovo Trust Agency, which will permit the privatization of Kosovo's socially owned enterprises and enhance efficient management of key providers of public utility services. Following its establishment, the Trust Agency began to examine the assets, commercial viability, and cadastral records of some 500 socially owned enterprises in Kosovo. The Agency will also take over the responsibility for a number of State-owned enterprises, including the electricity supply and distribution firm, the telecommunications company and the airport.

18. The provisional institutions and the European Union-led economic reconstruction pillar of UNMIK launched several initiatives to promote economic development. In an effort to attract foreign investment, particularly important now that the Kosovo Trust Agency is in place, they started a series of investment conferences aimed at informing Kosovo diaspora businessmen living in Western Europe and the United States about investment opportunities in Kosovo. The

first conference, attended by over 200 Kosovo Albanian non-resident businessmen, was held in Switzerland on 8 June. In addition, the Ministry of Trade and Industry established a Regional Development Agency in Prizren in cooperation with the Government of Slovenia.

19. The dynamic development in the banking sector continued. Despite a post-euro conversion decline of deposits, commercial credits continued their accelerated growth: from 6.1 million euros in December 2000, to 21.3 million in June 2001, 46.7 million in December 2001, and 78.6 in April 2002. Cash wire transfers also increased rapidly, partly because of the euro conversion. In the first quarter of 2002, cash transfers nearly tripled in comparison with the first quarter of the previous year.

20. Considerable progress was made towards providing access to competitive banking services for consumers and businesses. There are now 80 different commercial bank branches, including significantly improved access to services for minority communities. My Special Representative opened the first main branch of a commercial bank to operate in northern Kosovo (Zvecan) in June. A commercial bank also opened an automatic cash dispenser (ATM) in Gracanica (Pristina region), along with fully licensed part-time banking facilities for the local Kosovo Serb community.

IV. Tackling crime and violence

A. Security situation

21. The overall trend in the security situation remained encouraging, as the number of cases of murder, kidnapping, arson and looting continued to decrease. The main crime indicators showed that most crime had an economic basis. Demonstrations during the reporting period also tended to be based on economic issues (such as teachers' salaries) and were peaceful. One negative trend noted was the increase in reported rapes and aggravated assaults. There was also an increase in cases of domestic violence, although this may be due to increased public awareness resulting from UNMIK information campaigns.

22. UNMIK illustrated its continuing determination to enforce the rule of law on 18 and 19 June when it arrested six former members of the Kosovo Liberation Army (KLA), three of whom were active members of the Kosovo Protection Corps (KPC), on charges of unlawful detention and torture of fellow Kosovo Albanians in June 1999. In contrast to the angry protests resulting from the arrests on war crimes charges of three former KLA members in January 2002, these arrests generated only localized reaction in western Kosovo. Further high-profile arrests were made by UNMIK police on 6 July. Eight Kosovo Albanians, three of whom were KPC members, were arrested for the brutal attack on a Kosovo Albanian family in Glogovac in August 2001, which resulted in the death of five people.

23. During the reporting period no serious or aggravated assaults were reported to be ethnically motivated. Although difficult to assess over a short period of time, the security situation of the minority communities seems to have improved. A year ago, attacks and intimidation of minority communities were still considered systematic; now they have decreased significantly and are considered more random. Freedom of movement has also improved, owing in part to the removal of KFOR fixed checkpoints and the resulting diminishing mental reliance on static security. Increasingly, Kosovo Serbs now drive unescorted through Kosovo Albanian areas, although there are still cases of Kosovo Serb cars being stoned. In line with this positive trend, KFOR and UNMIK planned the continuing transfer of civilian responsibilities from KFOR to UMMIK police.

B. Combating terrorism and organized crime

24. The attention UNMIK paid last year to laying a firm legal basis for combating terrorism and organized crime started to pay dividends. On 10 May, a panel of international judges handed down the first sentence on terrorism-related charges. The defendant, who was charged with the murder of the head of the Yugoslav Passport Office in Pristina in April 2001 under UNMIK regulation 2001/12 of 14 June 2001, on the prohibition of terrorism and related offences, was sentenced to 23 years' imprisonment. During the reporting period, international judges and prosecutors handled seven additional cases involving charges of terrorism, organized crime and illegal border crossing.

25. In mid-June, my Special Representative signed an exchange of letters with the Minister for Foreign

Affairs of the former Yugoslav Republic of Macedonia, enabling an international panel of judges in Kosovo to sentence a former KLA commander to 14 years' imprisonment for crimes committed in the former Yugoslav Republic of Macedonia. The defendant had been tried in Skopje for attempted murder and illegal weapons possession in 1998, but had fled before sentencing. This was the first time such a procedure was applied in Kosovo and it set an important precedent. Not only will this procedure provide a valuable tool in the fight against crime, it will also help ensure that Kosovo does not become a safe haven for criminals.

26. The UNMIK fight against organized crime and terrorism was boosted by the signing on 31 May of a Protocol on Police Cooperation with the Governments of Serbia and the Federal Republic of Yugoslavia. The Protocol was negotiated within the framework of the High-ranking Working Group established through the Common Document of November 2001 and will allow an exchange of information between the UNMIK police and their Serbian and Yugoslav counterparts. UNMIK also started negotiations with the authorities of Albania and Montenegro with a view to concluding similar police cooperation arrangements.

27. On 10 May, my Special Representative organized a regional conference in Pristina to discuss ways to combat cigarette smuggling. The ensuing Pristina Declaration laid out a comprehensive set of measures to reduce the level of cigarette smuggling in the region. My Special Representative made further proposals for regional cooperation in the fight against organized crime at a meeting of the South-East European Cooperation Process in Belgrade in June. During the reporting period UNMIK police and the Kosovo Police Service (KPS) conducted several successful anti-smuggling operations, including the seizure of sizeable quantities of cigarettes, fuel and alcohol on the administrative boundary line with Montenegro. On 4 July, UNMIK customs officers seized over 20 million cigarettes in raids in Leposavic municipality in northern Kosovo.

C. Building local law enforcement and judicial capacity

28. Building local law enforcement capacity remained an essential goal and substantial progress has been made in this area. Almost three years after the opening of the Kosovo Police Service School, there are now more KPS officers than UNMIK police. To date, approximately 4,770 KPS officers have completed basic training and have been integrated, or are in the process of being integrated, into the operational law enforcement regime with UNMIK police. The Kosovo Police Service remained one of the best examples of a modern, multi-ethnic institution: 16.2 per cent are women and 15.3 per cent are from minority communities, including 8.3 per cent from the Kosovo Serb community. KPS officers of different ethnicities continued to work successfully together in the field, carrying out joint patrols in many areas.

29. An indicator of progress to date in building local police capacity was the fact that the last class to graduate basic training was the first to have several courses (2 out of 10) taught solely by local police instructors. A senior rank structure has been introduced incrementally in the Kosovo Police Service and the first promotions are now being awarded: 203 officers have been promoted to sergeant, and in June 2002 the introduction of a middle management command officers' course coincided with the selection of the first 20 lieutenants.

30. While there are 27, out of a target of 34, international judges and prosecutors, the indigenous justice system comprises 337 local judges and prosecutors. This includes 314 Kosovo Albanians, 4 Kosovo Serbs, 10 Kosovo Bosnians, 7 Kosovo Turks and 2 Kosovo Roma.

31. UNMIK remained committed to increasing the representation of minority communities in the local judiciary. On 20 May, some 80 Kosovo Serb judges and prosecutors, currently residing in Serbia proper and Kosovo, attended an information-sharing session on employment opportunities in Kosovo. An agreement in principle was reached at meetings my Special Representative held in Belgrade on 6 July with Mr. Covic and the Serbian Justice Minister, Vladan Batic. It was concluded that the authorities of the Federal Republic of Yugoslavia would encourage candidates to submit their applications by 15 July and that the Government of Serbia would guarantee pension and

social security rights. Significant progress in the recruitment of Kosovo Serb judges and prosecutors, however, depends on Serbia taking steps to dismantle the structure of parallel courts in which many former judges and prosecutors are currently employed.

V. Creating conditions for sustainable returns and reintegration

A. The return process

32. Over the past few months, a climate has been created that, for the first time since the arrival of UNMIK, appeared conducive to promoting inter-ethnic dialogue and the possibility of return. An important development in this regard was the inclusion of both the majority and minority communities as an integral part of the return process. The Government followed up previous statements on its commitment to the return and reconciliation process with concrete action: the Prime Minister, Bajram Rexhepi attended the opening of a multi-ethnic youth centre in Kamenica and delivered part of his speech in Serbian; he also attended the Orthodox Easter ceremony at the Pec Patriarchate; and several ministers visited mixed municipalities to meet with representatives of the minority communities. On 28 June, all the municipal assemblies agreed to a Strategy of Joint Principles affirming the right to return. Also in June, the Kosovo Serb Senior Adviser on Returns joined the Office of my Special Representative.

33. On 4 July, the Assembly adopted a resolution on rights of communities and their members and on the conditions for return of internally displaced persons and refugees proposed by the Government. It underlined the right to return, repossess property and enjoy freedom of movement, and called on the competent institutions to facilitate return. The resolution was subsequently endorsed by Mr. Covic, who called it a very significant, positive step.

34. At the same time, there has been a modest increase in minority returns that has set in motion a certain momentum that can now be built upon. According to figures provided by the Office of the United Nations High Commissioner for Refugees (UNHCR), 997 internally displaced persons returned home to Kosovo during the first six months of 2002, 439 of whom were Kosovo Serbs. One of the largest return projects was that of 86 members of the Ashkali community to Vucitrn by 9 July. The outflow figures of minority community members were significantly less. UNHCR estimated that, during the same period, approximately 268 people left Kosovo.

35. Although progress remained mixed, there are indications that inter-communal relations are slowly improving. Grass-roots reconciliation projects have begun in several areas, such as a milk-sharing project in Novo Brdo, and there have been several multi-ethnic cultural and sporting events. For the time being, it is these smaller-scale, trade-based and cultural projects, which break the enclave mentality and improve freedom of movement, that hold out the best hope for success. More ambitious projects, such as a multi-ethnic market in Lipljan, have not been so successful, but remain an important target.

36. An important factor in building inter-communal trust was the fact that Kosovo Albanians began to be sentenced for crimes committed against minority communities following the arrival of the international presence in June 1999. In May 2002, for example, a panel of international judges handed down a 15-year sentence to a Kosovo Albanian male for the murder of an elderly Kosovo Serb woman in Prizren.

37. UNMIK sought to capitalize on these positive developments, which it also helped to bring about. In May 2002, my Special Representative briefed donors on the financial requirements of the returns process, which amount to over 16 million euros. Shortly thereafter the Mission launched its "concept paper on the right to sustainable returns" based on the principle of the individual right to return to the place of origin. The key principles were supported by Mr. Covic and the Coordinating Centre at a meeting of the High-ranking Working Group on 31 May. The aim is to achieve increasing returns this year so as to create the momentum for more significant numbers in 2003 and 2004. UNMIK has increased its grass-roots efforts to support minority returns: there are now 5 regional working groups on return, 24 municipal working groups, and 12 small task forces to address specific aspects of returns in particular locations. In addition, UNMIK continued to address remaining obstacles to return, including freedom of movement, providing internally displaced persons with accurate information about the situation in Kosovo, determining the fate of the missing of all communities, and the question of property.

B. Efforts to improve freedom of movement

38. Improved freedom of movement was visible during the reporting period. This was, in part, attributable to the gratis distribution to the Kosovo Serb community by UNMIK of Kosovo license plates to allow the freer circulation of cars. the Mission's continuing dialogue with the authorities of the Federal Republic of Yugoslavia was a further contributing factor. At a meeting of the High-ranking Working Group in Belgrade on 31 May, a Technical Agreement between UNMIK and Serbian Railways was signed that led to the resumption on 4 July of the train service between Belgrade and the Pristina region. On 6 July, agreement was reached on the text of a Protocol on the Movement of Registered Vehicles and the Issuance of License Plates and Vehicle Registration Documents, which will allow cars with Kosovo license plates to circulate freely throughout the Federal Republic of Yugoslavia.

C. Filling the information gap

39. An important innovation was the beginning of "go and inform" visits to communities of internally displaced persons in Serbia proper, which included, on at least one occasion, a member of the Kosovo Albanian community. The resulting town meetings with the internally displaced communities are now run jointly by UNMIK and the Coordinating Centre for Kosovo. On 5 July, my Special Representative visited the Smederevo Collective Centre in Serbia proper to exchange information with the internally displaced persons there.

40. UNMIK also worked to reach internally displaced persons through Internet-based information systems and cross-boundary media projects. The Serbian daily *Danas* began printing supplements on Kosovo issues, for example; and Radio Television Kosovo agreed to air children's programmes in Serbian. UNMIK worked to integrate its outreach approach to the internally displaced community, both with the Coordinating Centre for Kosovo and other actors involved in the process. The use of the media for outreach purposes was facilitated by agreements reached during a conference on bridging the information gap, held at in Pristina at the end of May, with media representatives from Kosovo, Serbia proper, Montenegro and other parts of the region.

D. Determining the fate of the missing of all communities

41. UNMIK moved forward the process of clarifying the fate of the missing, which remained one of the principal barriers to reconciliation. As a result of increased cooperation between the International Committee of the Red Cross and the International Commission on Missing Persons, as well as a restructuring of UNMIK operations in this area, there have been more identifications in the first months of 2002 than in the whole of 2001. At the beginning of May, a group of international forensic experts began work at the Forensic Institute at Orahovac, previously the morgue run by the International Tribunal for the Former Yugoslavia. So far, the Institute has performed 95 autopsies on remains from the 1999 conflict. Fifty-three sites were investigated during the reporting period, producing 123 remains. A further 60 sites remain under investigation. My Special Representative met with families of the missing of all communities, both separately and together, and made it clear that this issue could only be solved by working together.

E. Property

42. The activities of the Housing and Property Directorate (HPD), as the main means of adjudicating and safeguarding property rights in Kosovo, remained a priority for UNMIK. To date, HPD has received 17,364 claims out of an estimated possible total of 75,000, and has resolved 644 claims, of which 159 are settled and 485 are in the process of being adjudicated. The Directorate executed 203 evictions to implement those decisions. In implementing its mandate concerning abandoned properties, HPD has taken 1,465 properties under its administration, and 3,386 cases are under investigation.

43. In an attempt to ease financial difficulties, UNMIK and UN-Habitat signed a memorandum of understanding outlining the transfer of HPD from Habitat to UNMIK, as a legally and administratively independent entity under the auspices of UNMIK. In order to strengthen the financial basis of HPD, UNMIK

and UN-Habitat jointly organized two donor conferences, at Pristina and Brussels.

VI. Establishment of UNMIK authority throughout the whole of Kosovo

44. Mitrovica remained a challenge to the implementation of Security Council resolution 1244 (1999) and the authority of the international community in Kosovo. Following the upsurge of violence in April (see S/2002/436), UNMIK sought to stabilize the security situation on the ground by doubling the number of UNMIK police in northern Mitrovica and using its dialogue with the authorities of the Federal Republic of Yugoslavia to secure public support for change on the ground. It is important that such dialogue produces concrete results, particularly the dismantling of parallel structures.

45. The elimination of parallel structures, including security structures, can only be accomplished once a legitimate system is established that can replace them. On 10 June UNMIK launched a special recruitment campaign for Kosovo Serbs from northern Mitrovica to join the Kosovo Police Service, an initiative already endorsed by the Yugoslav and Serbian Governments in the Protocol on Police Cooperation signed on 31 May 2002. On the judicial front, UNMIK police sought to find sufficient evidence to prosecute criminal elements in northern Mitrovica. Key support for this came from the President of the Federal Republic of Yugoslavia, Vojislav Kostunica, and the Minister for Foreign Affairs, Goran Svilanovic, with whom my Special Representative spoke in Belgrade on 19 June at the foreign ministers' meeting of the South-East European Cooperation Process.

46. Economic regeneration in northern Kosovo remained a high priority. A number of donor programmes, generally targeted at medium-scale infrastructure development, are being developed in the area, and the increased availability of banking services, such as the opening of a branch of the American Bank of Kosovo in Zvecan in June, has supported some private sector development. The creation of the Kosovo Trust Agency, with a regional team based in Mitrovica, will further these efforts. Meanwhile, funding was found to support the first regional enterprise agency located in a minority area. The new Zvecan-based office will offer advice, expertise, and general business support facilities to the economic community of northern Kosovo.

47. The security, law and order and economic elements of UNMIK activities were complemented by an examination of possibilities to further devolve competencies to the municipal level, as envisaged in the Common Document, on the basis of the present Municipal Assembly structure; dialogue with Kosovo Albanian leaders to ensure their support and patience; and an examination of inter-communal confidence-building measures.

VII. Kosovo Protection Corps

48. The new structure of the Kosovo Protection Corps (KPC), adjusting the organization to 3,052 active members, was approved and the deactivation of the reserve began. The Corps, as well as the Fire and Rescue Service and the Engineering Section of UNMIK, was involved in assisting the population in Gnjilane following an earthquake in April 2002. The Engineering Section constructed containerized office accommodation to replace buildings that had been destroyed, and conducted technical assessments on 1,900 houses in the area. KPC received additional earthquake response training at the Turkish Civil Defence College in Ankara. There was an improvement in the recruitment of members from minority communities, for whom 10 per cent of positions remained reserved. A member of the Bosniac community was appointed Deputy Commander of the Corps on minority issues, and in June nine Ashkali joined KPC. Twenty per cent of jobs within the Emergency Management Division of the Directorate for Civil Protection are now filled by members of the minority community.

VIII. Relations with the Federal Republic of Yugoslavia

49. Enhanced dialogue with Belgrade yielded concrete, tangible results, through the High-ranking Working Group. Particular focus during the reporting period was placed on Mitrovica, economic policies, police and judicial cooperation, outreach to Kosovo Serb internally displaced persons, and evaluating conditions for return. An important confidence-

building gesture and example of the benefits of dialogue was the return to Kosovo by the authorities of the Federal Republic of Yugoslavia at the end of May of a 6,000-year-old figurine, the symbol of Kosovo's cultural identity.

50. In accordance with the Agreement on the Transfer of Sentenced Persons between UNMIK and the Federal Republic of Yugoslavia signed on 3 April, six Serb prisoners, of a total of 16 eligible prisoners, were transferred from Mitrovica Detention Centre to Serbia proper on 26 May. According to the Agreement, the Federal Republic of Yugoslavia and Serbia will continue to enforce the sentences and are bound by the legal nature and duration of sentences issued by the UNMIK justice system.

51. My Special Representative continued to encourage contacts between representatives of the provisional institutions and the authorities of the Federal Republic of Yugoslavia. A meeting between the Kosovo Finance and Economy Minister and the Serbian Minister of Finance was held at Pristina in May on the margins of the regional conference on cigarette smuggling. However, the Government of Kosovo underlined that the time was not yet ripe for full-blown high-level contacts, which continued to be carried out by my Special Representative. This is a gradual process, but one that is moving forward all the time: my Special Representative was, for the first time, accompanied by a Kosovo Albanian journalist for the meeting of the High-ranking Working Group held at Belgrade at the end of May. He was later accompanied by six Kosovo Albanian journalists when he visited the Smederevo Detention Centre and Belgrade at the beginning of July.

IX. Relations with the former Yugoslav Republic of Macedonia

52. The implementation of the Agreement on Border Delineation and Demarcation between the Federal Republic of Yugoslavia and the former Yugoslav Republic of Macedonia continued to have practical consequences, in particular for farmers whose grazing lands were affected by the Agreement. Within the Joint Expert Committee set up by my Special Representative and the President of the former Yugoslav Republic of Macedonia, Boris Trajkovski, in March 2002, UNMIK sought to find practical solutions. The authorities of the former Yugoslav Republic of Macedonia agreed in June in principle to a joint access permit for farmers and endorsed proposals to establish an additional provisional border crossing for the population of the border areas.

53. On 18 June, the Government in Skopje took a decision to abolish visas for the holders of UNMIK travel documents, which will be a significant boost to freedom of movement. In addition, it was agreed in principle that the authorities would recognize the UNMIK-issued Kosovo license plates and vehicle registration documents. These measures will contribute to greater mutual confidence and will, it is hoped, help to defuse the sometimes tense situation in the border communities.

X. Support matters

54. The reporting period was marked by a reduction of $61 million in the amount approved for the Mission for the period 2002-2003. The implementation of this reduction will necessitate the transfer of responsibility and authority to the provisional institutions earlier than planned. No reductions are planned in the number of civilian staff in the police and justice pillar, UNMIK police, or the formed police units. The budget reduction necessitated a decrease of $12 million in operational requirements. The decrease in the provision for operational requirements will be carried out, inter alia, by cancelling a number of engineering projects, reducing the purchase of replacement data-processing equipment by 50 per cent and reducing air operations by $1.2 million.

55. A project team, led by the Office of Internal Oversight Services, assisted by the auditing firm KPMG, is currently conducting a review of risk management in UNMIK. The review will focus on how UNMIK identifies, evaluates, manages and monitors its strategic, financial and operational risks and will run until mid-August 2002.

XI. Observations

56. The completion of the Government by the participation of the Kosovo Serbs was an important step forward for the provisional institutions of self-government. The period under review saw an inevitable testing of UNMIK and a push on the part of the

provisional institutions to gain more responsibilities. I support the firm approach taken by my Special Representative and call on the provisional institutions not to be sidetracked from the urgent issues for which they do have responsibility. The forthcoming municipal elections will provide an important opportunity to consolidate elected democratic structures.

57. Strengthening the rule of law throughout Kosovo remains a high priority. The recent arrests of former members of the Kosovo Liberation Army clearly demonstrated that no one is above the law. Continued support for the Mission's fight against crime, through criminal investigation leading to arrests and capacity-building of the local police and judiciary, will lead Kosovo towards normalization. The UNMIK regional approach to fighting crime promises to be effective and the initial signs of progress achieved are encouraging.

58. UNMIK is committed to achieving sustainable returns in the course of this year, creating the momentum for increased returns over the next few years. I welcome the fact that both the majority and the minority communities are now becoming an integral part of the process. Although it will take time to achieve a qualitative improvement in the conditions of the minority communities, an important precondition for such an improvement is inter-ethnic dialogue and reconciliation at the grass-roots level. For the first time since the deployment of UNMIK to Kosovo, the conditions for promoting genuine inter-ethnic dialogue seem to be in place and can be built upon. It is important for UNMIK to have the requisite financial assistance to see through the important process of returns. My Special Representative is concerned that a lack of funding may be an impediment to return and I call on the donor community to continue its support in this crucial area.

59. UNMIK has enhanced its focus on removing the remaining barriers to return and reconciliation. Gradual progress was made on determining the fate of the missing of all communities. My Special Representative has given encouragement to the families of the missing on all sides to engage in a dialogue, as it is only by working together that progress can be achieved. It is also important for the Kosovo Albanian community to cooperate with UNMIK to resolve the fate of the missing in Kosovo.

60. It is essential that UNMIK exercise its authority throughout the whole of Kosovo. My Special Representative is seeking immediate and longer-term solutions to the untenable situation in Mitrovica, and I call on the authorities of the Federal Republic of Yugoslavia to use their influence to dismantle the parallel structures still operating in Kosovo, and to publicly support UNMIK authority in northern Kosovo. Progress has been achieved during the reporting period in many areas through enhanced dialogue with the authorities of the Federal Republic of Yugoslavia. There is hope that the provisional institutions will soon participate in this dialogue.

61. Work continued on the benchmarks my Special Representative outlined to the Security Council in April 2002, which will be used as a strategic planning tool to provide direction and a vision for both the provisional institutions and UNMIK. They will be used as a means of regularly measuring progress, building capacity within the Kosovo institutions, stimulating planning processes and engaging the resources of the entire Mission. The provisional institutions were increasingly involved in the process of identifying and undertaking concrete actions to meet the benchmarks, the overall objective being eventual local ownership of the process.

62. UNMIK itself is facing demanding challenges in the coming months. The implementation of the budget reduction will necessitate the transfer of responsibility and authority to the provisional institutions earlier than planned. The Mission is doing its utmost to ensure that reductions do not impinge on its priority areas. The necessary downsizing of both human and material resources and the changes of tasks in connection with the establishment of the provisional institutions will add to the burden on the staff of the Mission.

63. I wish to express my gratitude to my Special Representative, Michael Steiner, and the men and women of UNMIK, who carry out their duties in often difficult and demanding circumstances. I also want to express my appreciation to the participating States and international organizations, particularly OSCE and the European Union, for their political, material and moral support of the Mission, which is essential for achieving the objectives set out in Security Council resolution 1244 (1999).

Annex I

Composition and strength of the UNMIK police (June 2002)

Country	*Number*	*Country*	*Number*
Austria	45	Malaysia	32
Belgium	2	Malawi	21
Bangladesh	82	Nepal	15
Bulgaria	96	Nigeria	90
Canada	19	Norway	15
Cameroon	19	Pakistan	204
Czech Republic	23	Philippines	63
Denmark	30	Poland	125
Egypt	68	Portugal	20
Fiji	53	Romania	185
Finland	19	Russian Federation	127
France	88	Senegal	15
Germany	390	Slovenia	15
Ghana	110	Spain	140
Greece	20	Switzerland	8
Hungary	5	Sweden	46
Iceland	3	Tunisia	6
India	506	Turkey	124
Italy	71	United Kingdom of Great Britain and Northern Ireland	163
Jordan	440	Ukraine	181
Kenya	42	United States of America	548
Kyrgyzstan	2	Zambia	38
Lithuania	9	Zimbabwe	61
Total			**4 524**

Composition of the Kosovo Police Service

Men	83.77 %
Women	16.23 %
Ethnic minority members	15.32 %
Kosovo Serbs	8.32 %
Total	**4 770**

Annex II

Crime statistics

	April-June 2002	*April-June 2001*	*Total in 2002*
Murder	24	104	54
Theft	406	1 628	3 798
Traffic in persons	3	27	10
Theft of vehicles	86	479	268
Robbery	37	114	95
Domestic assaults	43	3	130

Annex III

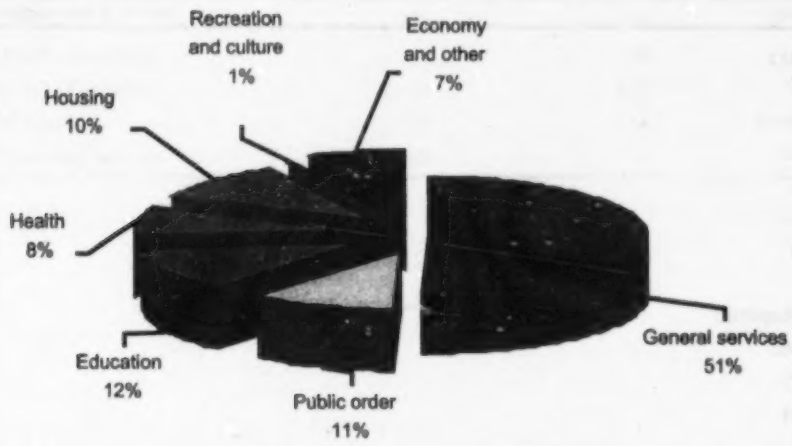
Composition and strength of the military liaison component of the United Nations Interim Administration Mission in Kosovo (at 30 June 2002)

Nationality	*Number of liaison officers*
Argentina	1
Austria	2
Bangladesh	1
Belgium	1
Bolivia	1
Bulgaria	1
Canada	1
Chile	1
Czech Republic	1
Denmark	1
Finland	2
Hungary	1
Ireland	3[a]
Italy	1
Jordan	1
Kenya	1
Malawi	1
Malaysia	1
Nepal	1
New Zealand	1
Norway	2[b]
Pakistan	1
Poland	1
Romania	1
Russian Federation	2
Spain	1
Switzerland	1
Ukraine	1
United Kingdom of Great Britain and Northern Ireland	1[c]
United States of America	2
Zambia	1
Total	**38**

[a] Including two non-commissioned officers.
[b] Including the Chief Military Liaison Officer.
[c] Director of the Advisory Unit on Security in the Office of the Special Representative of the Secretary-General.

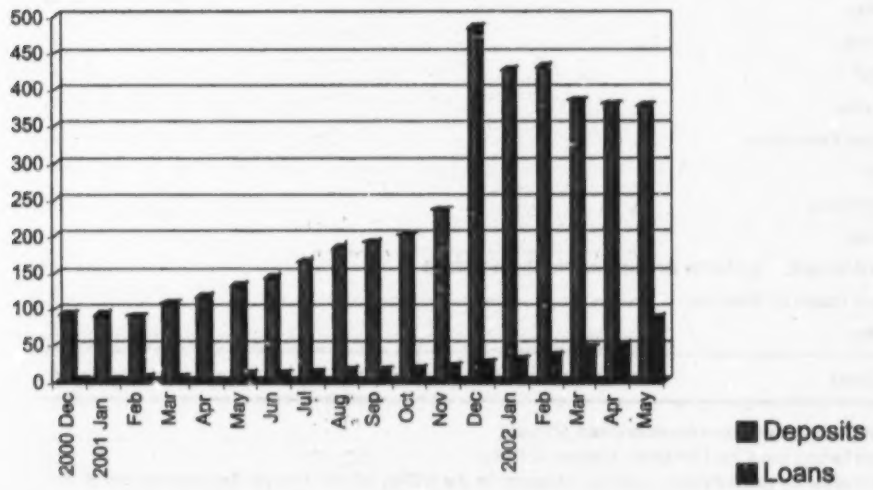
Annex IV

General budget expenditures by government function as a percentage of total expenditures, May 2002



Source: Central Fiscal Authority Treasury Office.

Deposits and loans, commercial banks, 1 January 2001 - 31 May 2002 (millions of euros)



Source: Banking and Payments Authority of Kosovo, Financial Services Reports.

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